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NATIONAL SECURITY COUNCIL

PROGRESS REPORT

by

THE UNDER SECRETARY OF STATE

on the implementation of

U. S. POLICIES AND PROGRAMS IN THE ECONOMIC FIELD WHICH MAY
AFFECT THE WAR POTENTIAL OF THE SOVIET BLOC
(NSC 104/2)

June 7, 1951

Avisé

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DEPARTMENT OF STATE
Washington

C O P Y

June 7, 1951

MEMORANDUM FOR MR. JAMES S. LAY, JR.,
EXECUTIVE SECRETARY, NATIONAL SECURITY COUNCIL

SUBJECT: First Progress Report on NSC 104/2,
"U. S. Policies and Programs in the Economic Field
Which May Affect the War Potential of the Soviet Bloc"

NSC 104/2 was approved as Governmental policy on April 12, 1951. It is requested that this Progress Report (as of May 15, 1951) be circulated to the members of the Council for their information.

EXPORT CONTROLS

1. Prohibition of all Exports to Communist China, Manchuria and North Korea

All exports from the United States to Communist China, Manchuria and North Korea continue to be embargoed:

a. By cancellation of all general licenses for these destinations by orders effective December 3, 1950, December 4, 1950, and December 6, 1950.

b. By revocation of all outstanding licenses for these destinations June 28, 1950 and July 20, 1950.

c. By refusal to issue any validated licenses for these destinations since June 28, 1950.

2. Export Licensing of all United States Shipments to the USSR and Eastern European Satellites

The United States continues in effect the licensing system instituted March 2, 1951 requiring a license for all products proposed for shipment to these countries, either originating in or intransit through the United States.

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3. Prohibition on Exports of Armaments and Short Supply Items

The United States continues to prohibit exports of all such items destined for the Soviet Bloc, whether shipped directly or indirectly.

4. United States Licensing Policy for Items Other than Armaments and Short Supply Items

Program Determination No. 502, April 25, 1951, of the Advisory Committee on Export Policy sets forth United States licensing policy for other items. This policy is in accordance with Recommendation 4 of NSC 104/2, and has been embodied in the following licensing directives that apply to the Soviet Bloc, exclusive of Communist China and North Korea:

a. Items on U. S. Lists I and IA shall be denied.

b. All other commodities on the Positive List which are destined for such areas, whether shipped directly or indirectly, shall be denied; however, the OIT may refer to the R Procedure Subcommittee for its recommendation applications for such commodities which in its opinion should be approved.

c. U. S. Class IC items which are not on the Positive List shall be denied by OIT if the export is in excess of minimum quantities; the OIT shall approve the export of minimum quantities of such commodities.

d. All other commodities not on the Positive List shall (a) in general be approved; though (b) the OIT may in any specific case reduce or deny licenses for particular shipments.

5. Strengthening Western European Security Controls

Since early April 1951, the Department of State has been preparing to undertake a further major negotiation with the Coordinating Committee countries, similar to the London and Paris discussions of October-November 1950. Formal meetings with the British and French are expected to commence in June, depending upon developments in connection with Section 1302 of the Third Supplemental Appropriations Bill (the Kem Amendment).

The United States' tentative proposal, now being explored with the British and French, may, if accepted as a basis for the forthcoming negotiations, assist in advancing six of the nine specific objectives set forth in paragraph 5 of NSC 104/2. The remaining three ("b", "e" and "f" of paragraph 5) are being pursued actively by the Coordinating Committee in Paris.

(See Appendix for a more detailed report.)

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6. Licensing United States Exports to Western Europe

United States policy for licensing shipments to Western Europe is embodied in Advisory Committee on Export Policy Notice of Action No. 79.2 of April 25, 1951. The Secretary of Commerce, as required by this notice of action, is reviewing the United States 1A items that have not been accepted for International List I. Until this review is completed, the provisions of Notice of Action No. 77.2 are being followed.

With respect to Switzerland and Sweden, the provisions of Notice of Action No. 79.2 are being followed in so far as possible until the review of United States 1A items by the Secretary has been completed. In those situations where it is not possible to follow Notice of Action No. 79.2 because the review of the United States 1A items is not complete, the provisions of Notice of Action No. 77.2 are being followed.

7. German Controls

Discussions have been under way for some weeks between Allied and Federal Republic representatives to achieve, by means of drastic revisions of German licensing procedure, more effective central control over licensing of strategic exports. High level approaches have been made to the Federal Republic Government in which the urgent necessity of improving these controls has been emphasized. The success of these and other approaches is evidenced by recent prosecutions in German courts.

8. Cooperation of American Republics

The American Republics have agreed to cooperate fully in the adoption of effective measures of economic defense and security controls in their international economic relations (Resolution XV, "Defense and Security Controls", of the Fourth Meeting of Consultation of Ministers of Foreign Affairs). On this basis the Department of State is planning an approach to the American Republics for the instigation of effective controls that will either prohibit or restrict the export or transshipment of strategic and short supply materials to the Soviet Bloc. It is expected that this approach will be made in the near future, but the details of the strategic lists to be used and the extent of the controls to be recommended have not yet been determined.

9. International Controls on Exports to Communist China

The United States, on May 7, 1951, and after prolonged negotiations with the United Kingdom, France and other states, formally introduced in the Additional Measures Committee a draft resolution recommending that every state embargo shipment of arms,

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ammunition, implements of war, atomic energy materials, petroleum, and items useful in the production of arms, ammunition and implements of war to areas under Chinese Communist and North Korean control. The resolution was adopted by the Committee on May 14, and is now before the General Assembly.

10. International Allocation of Short-Supply Materials

Instructions to the United States representative in the International Materials Conference (FSRC Doc. 4, April 16, 1951) include a directive to "oppose recommendations that would have the effect of releasing scarce commodities to the Bloc except where the two-way trade involved has a clear advantage for free world strength". If the commodity committees do establish allocation programs, the United States will use every influence to deny or limit shipments to the Soviet Bloc. It is clear that many other countries will cooperate, although with some limitations.

United States efforts to bring about tin and rubber allocation programs have not succeeded, and are not now being pressed further. In these two cases, however, the United States continues to work for limiting the flow to the Soviet Bloc by action of national governments.

PRECLUSIVE AND PREEMPTIVE OPERATIONS (Recommendations 11 and 12)

No opportunities have arisen warranting active consideration of employing the preemptive device. In the case of rubber and tin this device is impracticable.

FINANCIAL MEASURES

13. Blocking of Dollars

The Foreign Assets Control Regulations respecting China (except Formosa) and North Korea, issued by the Secretary of the Treasury and effective December 17, 1950, block the assets in the United States of Communist China and North Korea and their nationals. These regulations prohibit all transactions involving such assets unless Treasury licenses are obtained.

There has been no determination that export controls have become so restrictive and other economic and political relations so curtailed that blocking of the dollars and dollar transactions of the USSR and its European satellites would be appropriate.

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With respect to the financing of trade with the USSR and its satellites other than Communist China and North Korea, the following position has been taken by the State Department in consultation with other Departments: Where a private United States bank wishes to finance the export from a third country to the Soviet Bloc of an item which the United States would not license for export but which is a legal export from the third country, the Department will not object to the financing if it is reasonably clear that refusal to open the credit would in no way prevent the shipment.

14. Sterilizing Gold

As part of the development of a United States Government position for the guidance of our representative on the Economic and Financial Measures Subcommittee of the United Nations Collective Measures Committee, the Treasury Department is preparing a paper regarding the sterilizing of gold resources. In this connection Treasury is also preparing a paper related to item 13 above on the freezing of assets. These studies are not, however, focused on the Soviet Bloc, since they are designed for possible consideration in the event of any future aggression.

BLACKLISTING

15. The Commercial Intelligence Division of the Department of Commerce maintains an extensive file of suspected and known violators of export and other controls which is revised as new information is received. Information is exchanged with the Departments of State, Defense, and the Treasury, as well as the Central Intelligence Agency. United States Foreign Service Missions have recently been requested to include all available information of this type with World Trade Directory Reports.

The United States is presently considering with the Coordinating Committee countries the establishment of a Secret Black List of violators of export control regulations.

TECHNOLOGY

16. Strengthening Plant Security

Steps have been taken to improve the protection of advanced technological information in United States industrial establishments. NSC Action 413, dated January 6, 1951, approved a recommendation of the Interdepartmental Committee on Internal Security for the establishment of an Industrial Evaluation Board. This Board will identify and evaluate the relative importance of essential

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industrial facilities. A further recommendation of the Committee on Internal Security dated April 10, 1951 (reference NSC 99), would establish a Facilities Protection Board to develop criteria for the protection of facilities rated by the Industrial Evaluation Board and provide general policies for a facilities protection program. Actual administration of facilities protection will remain in the individual agencies most directly concerned.

17. Coordinating Committee Action

The United States has recently submitted to the other Coordinating Committee governments its policies and programs regarding the "Security of Technical Information". The other countries have been requested to supply similar information on measures they have adopted to deny the Soviet Bloc technical data. This information should provide the basis for thorough Coordinating Committee consideration of the problem.

18. Export Controls on Technology

Mandatory controls over the export of all technical data to the Soviet Bloc have been put into effect by the Department of Commerce. The Central Intelligence Agency, the Library of Congress and the Department of State have objected to the inclusion under these controls of unclassified technical publications which are available to the public. These agencies believe that the United States cannot effectively deny the Soviet Bloc access to such material, and that the principal consequence will be to invite effective Soviet retaliation, which would deny the United States published materials of great value to its intelligence programs. The problem has been submitted to the Interdepartmental Committee on Internal Security for its study and recommendations.

SHIPPING (Recommendations 19 and 20)

Coordinating Committee action in the field of shipping has been limited thus far to embargo and quantitative control over the sale of vessels to the Soviet Bloc. This action has been taken to prevent the Bloc's acquisition of vessels which would have direct military use in the event of war. In addition, the United States has recently raised in the Coordinating Committee the problem of chartering controls, recommending that ship chartering not be permitted to circumvent embargo controls.

No action has been taken in the Coordinating Committee to institute shipping controls as an adjunct to international embargo of commodities. It has been felt that preventing the growth of the Bloc's merchant marine so as to continue its dependence on the free

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world for shipping facilities is the most practical method of affecting the war potential of the Soviet Bloc.

NATO action in the field of shipping has been confined to planning shipping controls for a period of war. The Planning Board for Ocean Shipping has been concerned with this. With the establishment of the Finance and Economic Board under NATO, combined with the responsibilities of the Defense Production Board to recommend the embargo of materials in short supply and required for Western defense programs, there may be appropriate forums for handling the types of problems involved in recommendations 19 and 20 of NSC 104/2. Plans to take action in these bodies are being studied.

OAS action: At the Fourth Meeting of Consultation of Ministers of Foreign Affairs of American States, shipping controls were not specifically discussed. Resolution XV concerning defense and security controls, however, provides a basis for approaches to other American States should further study indicate that the adoption of shipping controls by these countries is desirable.

Air Traffic Controls: Implementation of NSC 15/1 and 15/3 has resulted in a severe diminution of air traffic between the Soviet Bloc and countries of the free world. Should information be obtained indicating a substantial leakage of embargoed items to the Soviet Bloc by air transport, further consideration will be given to the development of an air cargo control system. At present this means of transport does not appear to present a major problem.

DECREASING RELIANCE ON TRADE WITH THE SOVIET BLOC (Recommendations 21, 22 and 23)

The Economic Cooperation Administration has initiated three studies in order to have a program of action ready in case further substantial cuts in East-West trade occur as a result of Soviet retaliation. It is hoped to complete these studies by mid-June 1951.

The following are the studies, covering recommendations 21, 22 and 23, respectively, of NSC 104/2:

a. Alternative sources of important basic materials now being obtained from the Soviet Bloc by the free world.

b. Adjustments required in international allocation of essential materials in order to free friendly countries from reliance on the Soviet Bloc. The international shipping position and the additional requirements that would result from a cessation of Soviet Bloc exports will be included.

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c. Possible reorientation of Western European export trade from the Soviet Bloc to alternative free world markets. Particular emphasis will be placed on possibilities of shifting productive capacity to defense effort and developing new markets in the western hemisphere.

IMPORT CONTROLS

24. The need for controls on United States imports from the Soviet Bloc in order to minimize dollar earnings of the Bloc is not an immediate one.

Steps have been taken, nevertheless, which serve to reduce or eliminate these imports. Among these measures are the Foreign Assets Control Regulations (see item 13 above), which have effectively curtailed imports of merchandise of Communist Chinese origin, except for items of strategic importance. Also, an amendment to the 1951 extension of the Reciprocal Trade Agreements Act will require the withdrawal of the application of United States tariff concessions to imports from Communist-controlled countries, thereby reducing such imports to the extent that they will be impeded by increased duties.

/S/ JAMES E. WEBB

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APPENDIX

PROGRESS REPORT ON INTERNATIONAL EXPORT CONTROL NEGOTIATIONS

(Paragraph 5, NSC 104/2)

The central purpose of the coming discussions will be "to limit exports by COCOM countries to the Soviet Bloc of items on International List II to a level determined to be in accord with the common security interests" (paragraph 5-d). The COCOM countries agreed in January that such an effort should be made to strengthen controls over the 102 items on List II, "with full regard to the general strategic importance of the item and to the objective of preventing any increase in Soviet war potential" (Annex B, COCOM Document 207). Toward that end the United States has prepared extensive documentation which is currently being reviewed by American, British and French intelligence officers in order to reach agreement on the pertinent facts as a basis for the coming negotiations.

The COCOM countries have, in the light of the additional information now available, agreed that some of the List II items might be recommended for inclusion in International List I. It will be a United States objective (as per paragraph 5-c) to obtain the up-rating of such items wherever new information or better analysis reveals a justifiable case for embargo.

The United States has recognized that, for items remaining on List II, the present interim agreement to "hold the line" on quantities being shipped is inadequate from a security viewpoint as well as impractical for administrative reasons, at least as a basis for the decisions which must be made by export licensing officers and officials engaged in trade negotiations. We are therefore proposing to abandon the system and to substitute for it an agreement to base the List II controls on a detailed set of principles and procedures designed to emphasize the strategic significance of individual items (in terms of desired degrees of limitation) but permit actual controls to be exercised with due regard for important economic objectives.

The pertinent economic considerations, in our proposal, would be: (1) to assure the continued flow of goods from the Soviet Bloc which are essential to maintaining and developing Western defense economies, and (2) to conserve the supply of strategic goods available to Western defense economies by allowing them to be exported only to the extent necessary to obtain imports of greater essentiality from the Bloc.

If exports of these items are not essential for the conclusion

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of advantageous trade arrangements, we would urge that they be denied or severely restricted--depending upon the strategic significance of individual items in terms of desired degrees of limitation. In order to assure that an essential return is received for any List II item exported, we propose that licenses for the export of these goods be granted only pursuant to trade agreements or comparable barter arrangements which, preferably, have been approved in COCOM or are subject to review by that body.

If a control system of this nature proves workable and acceptable, and appears to offer some real prospect of an overall reduction in List II exports, it will clearly help to advance the objectives stated in paragraph 5-g of NSC 104/2--"to take measures to minimize past and future trade agreement commitments to supply goods of strategic importance"--and in paragraph 5-h--"to take measures to promote coordination in (Western) trade negotiations with the East". The control system described, to be workable, requires that rather detailed agreements be reached in COCOM so that a maximum of guidance is provided on a continuing basis for the benefit of licensing officers and trade negotiators. It will be a prime United States objective in the coming negotiations to see whether sufficiently detailed agreements can be reached to assure a workable system.

Whether the tentative United States proposal described above or some other approach is adopted, the resulting agreement on principles and procedures for handling List II items can be applied to the items (whether List II or List III or unlisted) which have been found by the Defense Production Board (NATO) to be in short supply and urgently required for defense programs in the NAT area. United States efforts in the NAT Council of Deputies to achieve a complete embargo of such goods have run into strong opposition, especially from countries which fear the loss of essential imports from the East if they are required to stop exports of certain secondary strategic goods entirely. The adoption of a procedure which makes it possible to meet these economic objections should bring us closer to the objective, in paragraph 5-a of NSC 104/2, of embagoing shipments to the Soviet Bloc of scarce materials or equipment needed for Western defense programs.

At the present time, consideration is being given to making the new Finance and Economic Board of NATO responsible for developing the procedure, just referred to, for handling the short supply/defense program goods. We are proposing that this task in practice be delegated by the FEB to COCOM in order to prevent overlapping of functions. Eventually, it may be agreed to abolish COCOM as an independent body and make it a subcommittee of the FEB. If this is accomplished, we believe much will have been done "to improve the organizational arrangements in COCOM

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and in the NATO to further these objectives" (paragraph 5-i of NSC 104/2).

The need "to institute more effective controls over transshipments and illegal trade" (paragraph 5-f) has been recognized in COCOM and has been the subject of numerous recent meetings. On May 8th the participating countries agreed to institute, effective June 1, a system under which the importing country, on request of the exporting country, will issue import certificates for individual shipments. These certificates constitute a guarantee, on the basis of a formal declaration by the importer to the authorities of his own country, that the goods in question will enter the economy of the importing country and will not be diverted without official approval. As a further check, the appropriate authorities of the importing country will issue a landing certificate or other document verifying delivery of the goods to their proper destination, and this document may be required by the authorities in the exporting country as evidence that goods entered the country of destination.

Agreement has also been reached in COCOM that the government of a country through which strategic goods may pass in transit to the ultimate destination will cooperate in the control system by delaying transshipment of the goods, if so requested by the government of the exporting country, on grounds that the shipment is being diverted to an improper destination in contravention of the export control regulation of the exporting country. Certain countries (Belgium, the Netherlands) have stated that they cannot comply with such requests, except for a very limited period of delay, unless specific legislation is obtained authorizing official intervention of this nature in free ports.

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